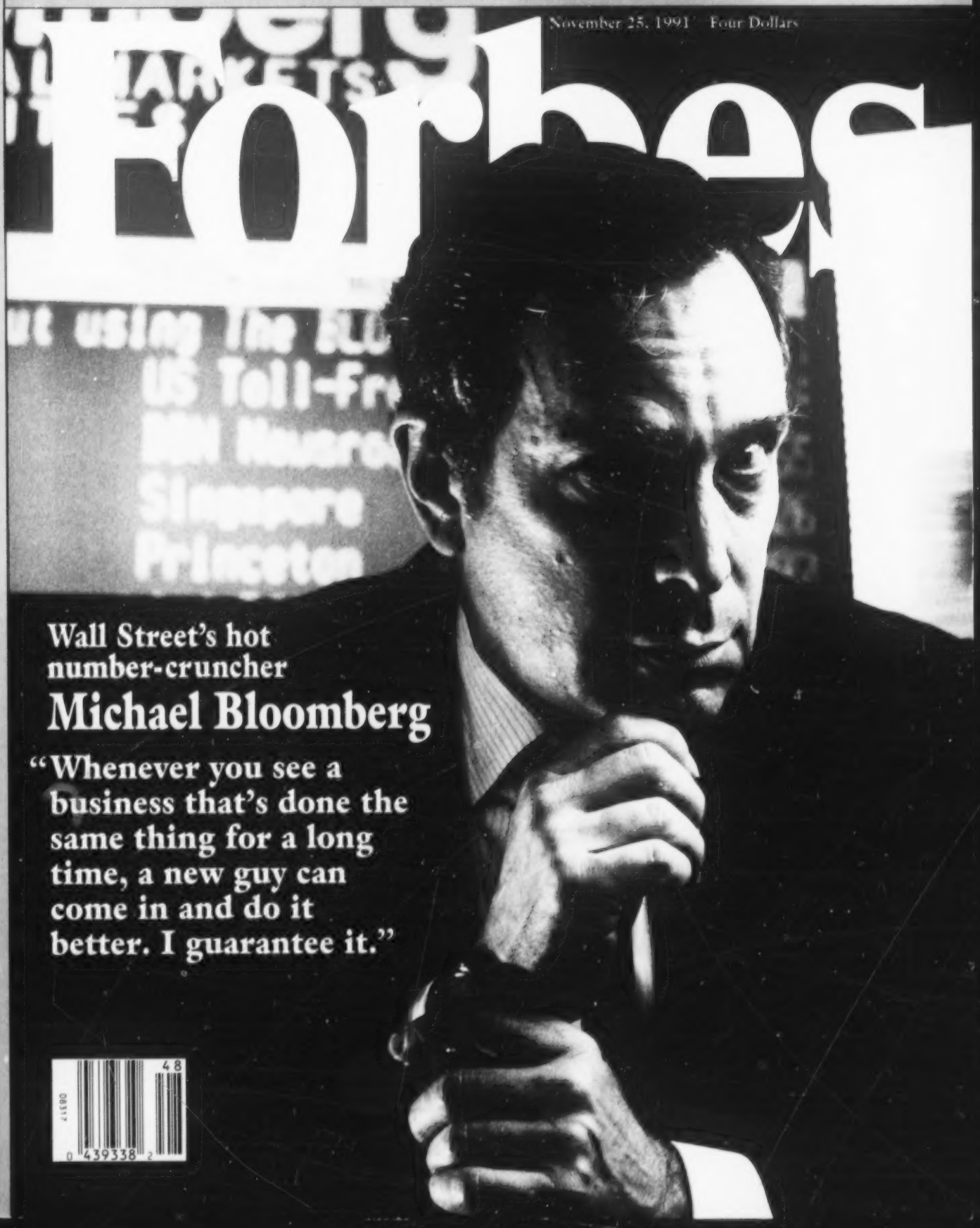
Revenge of the odd-lotters: How amateur investors beat the pros

Taxing the economy into stagnation

November 25, 1991 Four Dollars

Forbes



Wall Street's hot number-cruncher

Michael Bloomberg

"Whenever you see a business that's done the same thing for a long time, a new guy can come in and do it better. I guarantee it."

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NOVEMBER 25, 1991 VOLUME 148 NUMBER 12

Bells, whistles, pizzazz made Michael Bloomberg $600 million.
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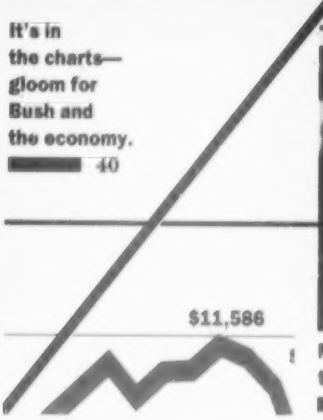

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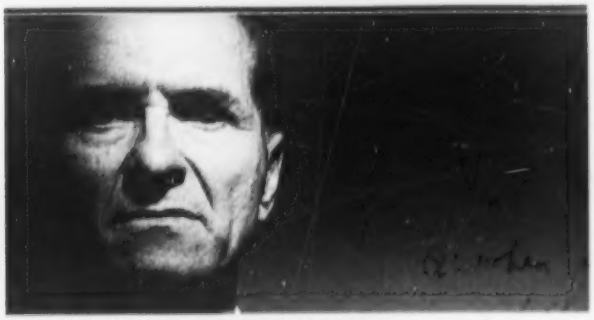

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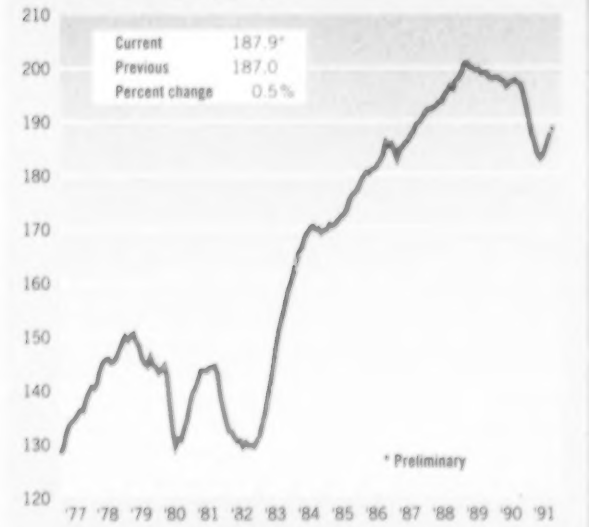
Cover photo by E.J. Camp/Outline

THE FORBES INDEX

BY TIMOTHY DODMAN



The initial estimate showing real growth in the gross national product at a 2.4% (annualized) rate in the third quarter does not mean this economy is out of the woods. By comparison to most other economic recoveries since World War II, this is very slow growth. Moreover, there is abundant evidence that many Americans doubt the recession is really over. The Conference Board, a New York nonprofit business organization, says its Index of Consumer Confidence, measured in October, is near the last low point it reached, during the 1982 recession.

Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	8.0%
Auto sales year to date vs 1990[1]	Ward's Automotive	-12.1%
Index of leading indicators Sept vs Aug	Dept of Commerce	-0.1%
Trade balance 12 months ended Aug 1991	Dept of Commerce	-$78 bil
All-commodity producer price index Sept vs Aug[2]	Dept of Labor	-0.3%
GNP 3rd quarter vs. 2nd—annualized growth	Dept of Commerce	2.4%
M2 (3-month change)—annualized growth[3]	Federal Reserve	-0.3%

[1] U.S.-based manufacturers, excludes imports, as of 10/20/91. [2] Wholesale goods. [3] Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

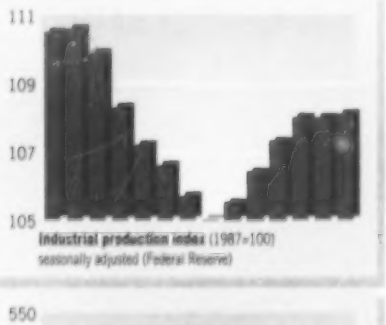
Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

To measure these 8 elements, Forbes monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.

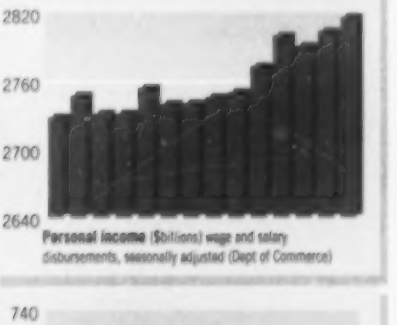
Consumer price indexes (1982-84 average=100) all urban consumers, unadjusted (Dept of Labor)

Manufacturers' new orders and inventories ($billions), seasonally adjusted (Dept of Commerce)



Industrial production index (1987=100) seasonally adjusted (Federal Reserve)

New housing starts (thousands) privately owned, unadjusted (Dept of Commerce)



Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept of Commerce)

New unemployment claims average for month (thousands), seasonally adjusted (Dept of Labor)

Retail sales ($billions), seasonally adjusted (Dept of Commerce)

Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

A S O N D J F M A M J J A S A S O N D J F M A M J J A S A S O N D J F M A M J J A S

In the past three years rising federal and local taxes have begun to cancel out the tax cuts of the Reagan years. This is bad news for political incumbents and equally bad news for the U.S. economy.

Backsliding on taxes

By Peter Brimelow

AMERICANS FACE A long year of electoral econobabble. If that isn't pain enough, they also face a pretty weak economy. FORBES offers the following chart portfolio in the belief that a picture is worth a thousand words—and a million numbers.

FORBES' charts focus not on nebulous aggregates but on the experience of individual American taxpayers. And they place this experience in perspective—over time, against trend and, where appropriate, as a share of the total economy.

The overall conclusion of these charts is disturbing. A decade ago American taxpayers faced crisis. It was staved off. Now it seems to be returning. For most taxpayers, the Bush era has been the equivalent of the Ford and early Carter years. Is this where we came in? (Yes, if spending lobbies like the AARP staff have anything to do with it. See page 89.)

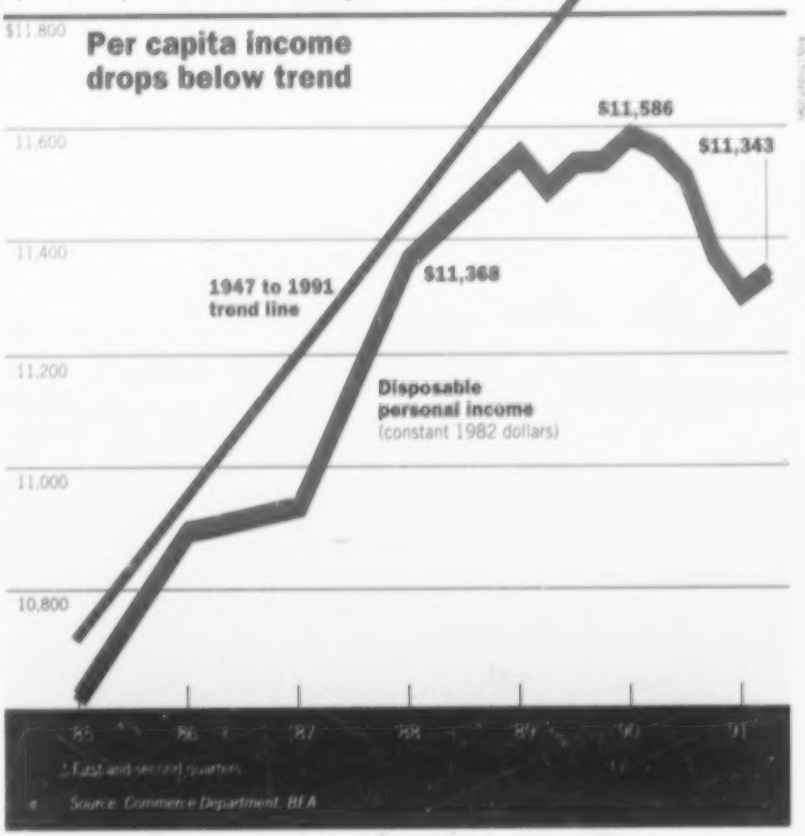
In recent weeks Washington has been wittering about a relatively obscure economic statistic: inflation-adjusted disposable income per capita. This message about conditions out there in the boondocks has penetrated the Beltway consciousness because of the realization that, since World War II, no party has retained the White House if in the election year per capita real disposable income has failed to grow by at least 2.9%.

Per capita disposable income has actually been falling recently. And the consensus of leading forecasters assembled by the Blue Chip Economic Indicators service suggests growth in 1992 will be not more than about 2.4%. Bad news for incumbents.

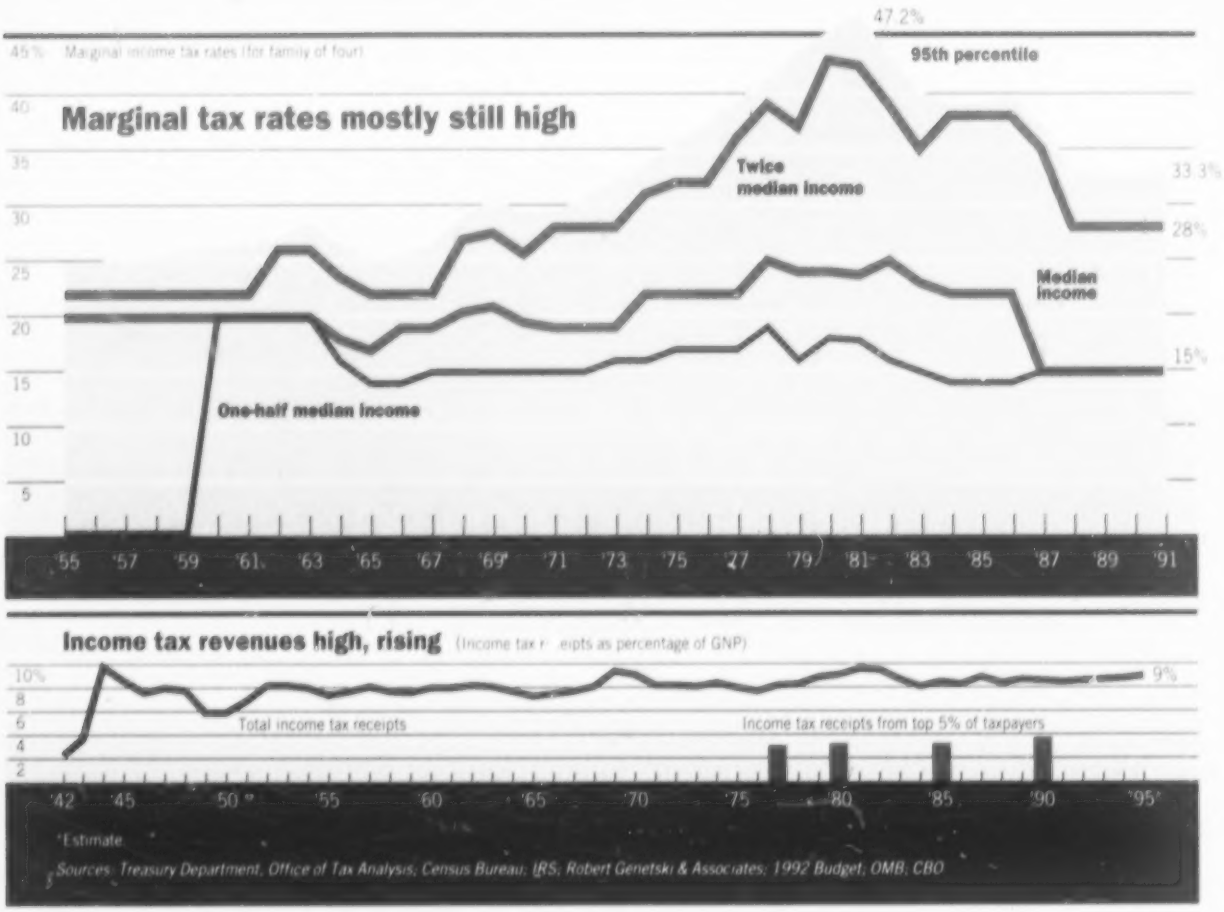
FORBES' chart reveals the full extent to which the individual American has been Bushwhacked—or, to be strictly accurate, whacked during George Bush's presidency but not necessarily by Bush. By the end of the Reagan years, income growth was closely tracking its long-term annual compound growth rate of 2%. But since then it has fallen steadily away.

The inexorable consequence of this math: Even if the Bush men hit their magic number in 1992, per capita disposable income will still be distinctly below trend. Americans may just be able to say they are better off than four years earlier. But they will be less better off than they might have anticipated.

Real disposable income is affected by recession, as people lose their jobs, by interest rate changes and other factors, including direct taxes. And there are clear signs that in the Bush years all these have started back up, federally and on the state and local level. Thus the increased social insurance contributions imposed on high-income earners



Even a strong election year rebound won't repair the damage.



Federal marginal rate cuts in the 1980s only offset increases in the 1970s. Income tax revenues remained at historic highs. Now both are rising again.

by the 1990 federal budget compromise helped to reduce total disposable income by about 0.3% in 1991.

The marginal rate of income tax (above) is that charged on the next dollar earned. It is what the taxpayer must think about when deciding whether to work more or go fishing.

(Note carefully: Usually, the marginal rate is *not* the same as the average rate—the overall proportion of the taxpayer's income that the government actually extracts. These rates can be the same only in a flat-rate system.)

The Reagan Administration cut marginal tax rates, but FORBES' chart reveals that this only reversed the very sharp unlegislated increases of the 1970s. Runaway inflation meant that, as incomes were raised in nominal terms to retain purchasing power, they ran slap into higher tax brackets—"bracket creep." This did not happen in countries where income taxes were indexed for inflation, like Canada (then).

American families earning twice the median income of approximately $41,000 now face a 28% marginal rate—about the same as the early 1970s, and considered too high even by the Democratic architects of the 1964 Kennedy tax cut. Median income and half median income families have had the beneficial effects of the 1970s better than rolled back. (But remember that within living memory their tax rates were much lower: Half the median income families made it onto the rolls only in 1960, and the income tax bill of a median income family of 4 in 1946—not shown—was the equivalent of just $80.)

Families at the 95th percentile ($100,000) are back to the mid-1970s, not least because of the 1990 rate increase.

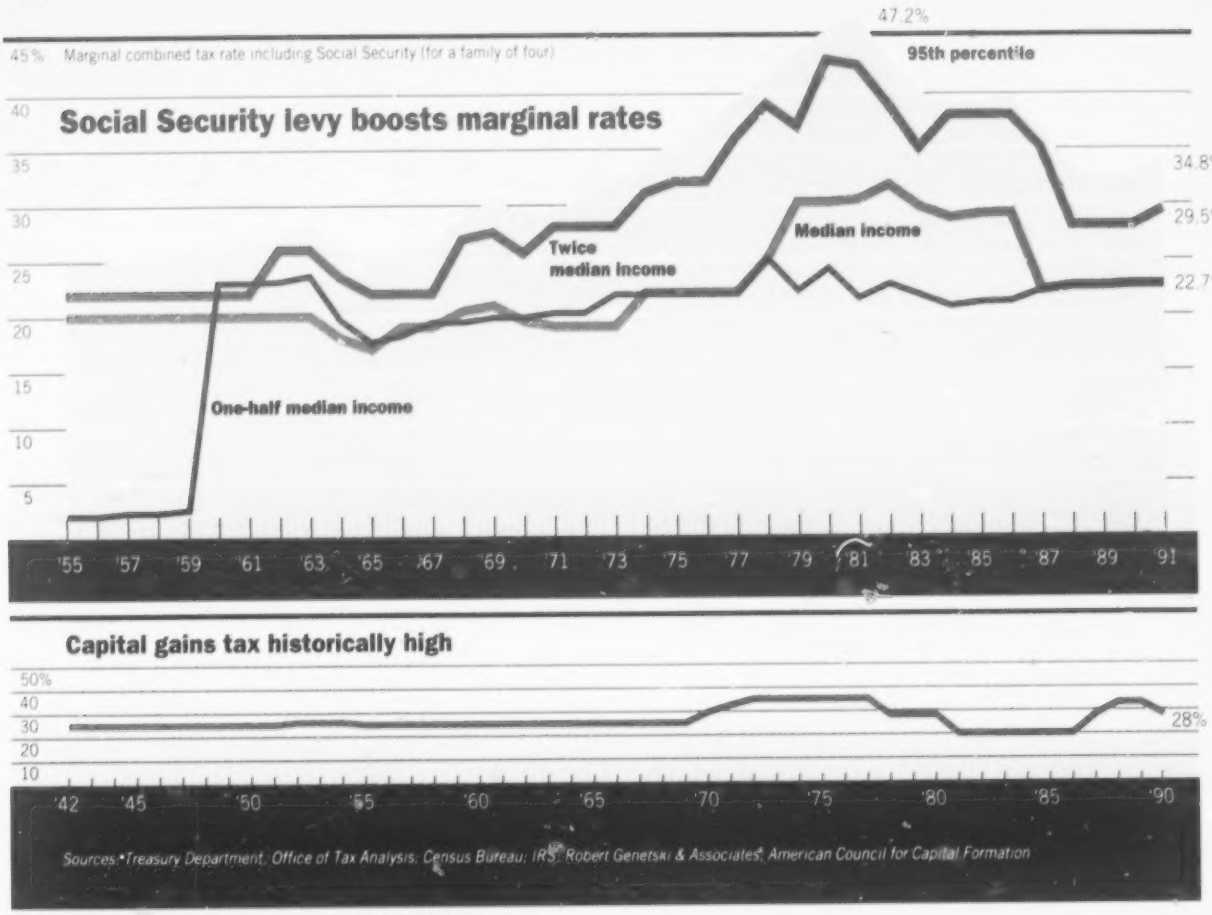
Contrary to myth, the Reagan tax cuts did not produce a collapse in individual federal income tax revenues *(see chart above)*. These continued in excess of 8% of gross national product, consistently above the post-World War II range, although below the bracket-creep peak of the early 1980s, the highest since 1944.

(Note the surge of receipts during WWII. Only at this point did most American families first make the acquaintance of the federal income tax.)

Two factors explain why receipts held up so well when Reagan was cutting marginal rates so sharply.

First: To some extent, the cuts did pay for themselves, just as the more enthusiastic supply-siders predicted. The top 5% of income earners, already contributing 37.5% of income tax receipts in 1977, were even inspired by the lower rates to increase their share an estimated 44.1% in 1990.

Second: Repeated tax code tinker-



Adjusting for Social Security payments sharply increases marginal income tax rates—since 1990, even on higher incomes.

ing after 1981 reduced pretax deductions, increasing taxable income—"broadening the tax base." Marginal rate charts don't capture this.

The Administration now projects income tax receipts will rise to 9% by 1995, canceling out the reduction of the Reagan years.

The Social Security levy (above) is sometimes portrayed as a sort of insurance payment. But in fact it is immediately disbursed to the present generation of recipients. It should be considered as a second, parallel federal income tax. Unlike the income tax, Social Security in 1990 is a flat 7.65% levy on all incomes up to $51,300.

FORBES' chart shows that this substantially increases the marginal rates faced by all except higher-income families, which have already paid their $3,925 maximum (until the 1990 budget compromise, which extended the 1.45% Medicare levy to incomes up to $125,000).

Also unlike the federal income tax, those paying Social Security acquire a statutory right to be reimbursed at an appropriate future point. Arguably, the present value of these reimbursements should be set against the current levy. And since low-income earners stand to gain more than they are now paying, this would make the system appear more progressive. But FORBES ignores this refinement as a bit too arcane for these purposes.

"The tax code is a mess," says Stephen Entin of the Washington, D.C.-based Institute for Research on the Economics of Taxation. "Notwithstanding the Reagan reforms, many people still face historically high marginal rates." And Entin points out that the interaction between the Social Security system and income tax has resulted in many anomalies, such as punitive effective marginal rates on the working elderly and those trying to get off welfare.

"In its blind, groping, monstrous way," says Entin in a tone of clinical interest, "the federal government seems to be subconsciously working toward a flat tax in the 30%-to-40% range."

Experience suggests this is about the highest rate taxpayers will stand still for. After World War II and Korea, U.S. marginal rates ranged up to 91% on extremely high incomes, but these top brackets generated relatively little real revenue. Thus, when Kennedy proposed his tax cuts, the 20% bracket was yielding a monstrous 85% of income tax receipts. All the brackets above 50% yielded only 2%. In 1960 income in the 91% bracket was reported by a mere 205 taxpayers. Excessively high taxes simply generate tax shelters and discourage productive investment.

FORBES' capital gains chart (opposite) records another attempt to extract revenue from wealthier taxpayers. Arguably, a capital gains levy is double taxation, since it falls on the fruits of retained (and previously taxed) earnings. As with income tax, the top marginal capital gains rate has returned to the relatively high levels seen in the 1970s. And unlike income tax, capital gains tax is not indexed for inflation. In effect, it expropriates savings. In another sense it is simply a transaction tax, because it comes due only if the property is sold.

If the federal government subconsciously intends to extract the maximum revenues from taxpayers, it is going to have to compete with the equally monstrous groping of state and local authorities (below). Their spending has risen from 9.7% of GNP in 1960 to above 14% this year. Someone has to pay for it.

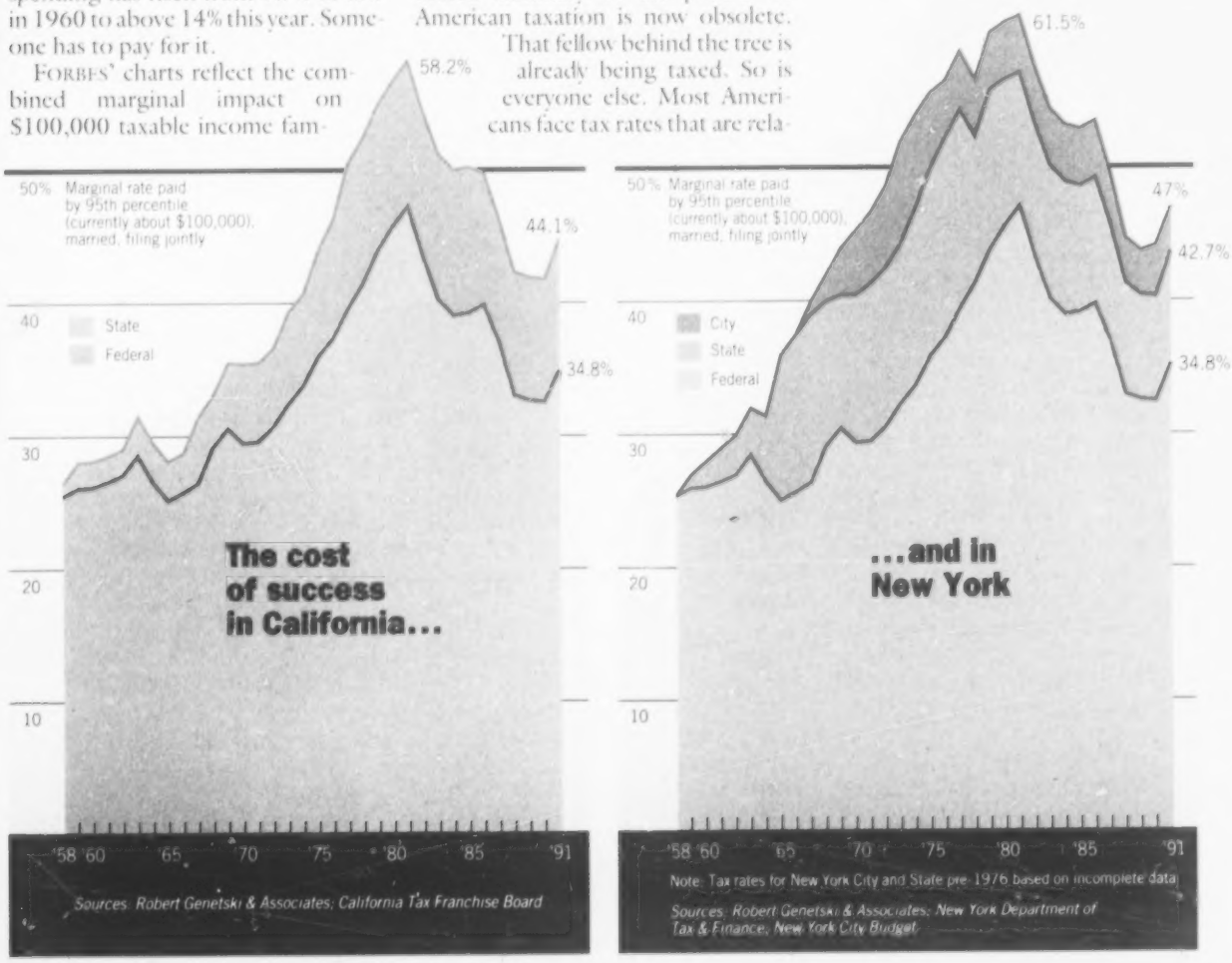
FORBES' charts reflect the combined marginal impact on $100,000 taxable income families in California and New York City. Both benefited from trimming of marginal rates in the 1980s, echoing the federal reforms. But now both are on their way back up. And remember, most state and local taxes, being indirect, don't show up on these charts. California Governor Pete Wilson's 1991 tax hike aimed to raise $7 billion, of which only $1.2 billion came from personal income tax (including an 11% top marginal rate on incomes over $200,000, also not shown).

Result: Both California and New York City now have top marginal rates in excess of welfare-state Britain, which charges a maximum of only 40% on individual incomes above £20,700 ($35,000).

"Don't tax you, don't tax me, tax the fellow behind the tree." This celebrated summary of the politics of American taxation is now obsolete. That fellow behind the tree is already being taxed. So is everyone else. Most Americans face tax rates that are relatively high in the national experience.

This is the inexorable consequence of combined federal, state and local government spending now running at 32.7% of GNP in 1990 (virtually its postwar high). This amount of money simply cannot be raised without taxing the great bulk of the population. As Willie Sutton said about robbing banks: That's where the money is. Even if all incomes over $100,000 could be confiscated—which even the most dogmatic anti-supply-sider must admit would have a terminally disincentive effect—they would still amount to only about 8% of GNP.

Politically, these charts suggest that by historical standards tax rebellion is very close. Economically, they suggest the economy may be headed for the stagnation of the late 1970s. ■



Marginal tax rates on upper income families in California and New York City are far above levels of a generation ago.

A cure for rheumatoid arthritis would be worth billions of dollars. But a cure is an unlikely early outcome for all these immune-system ventures so popular on Wall Street.

The autoimmune gold rush

By Reed Abelson

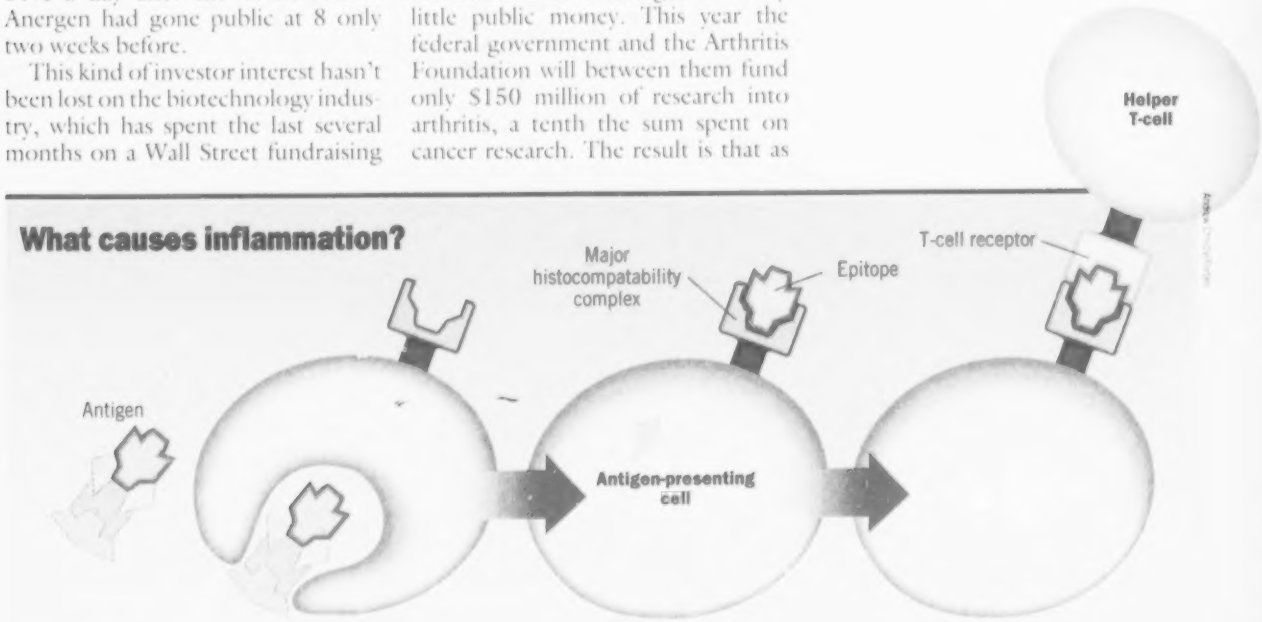
THE MARKET is so itchy for bioengineering stocks that the smallest trigger can set off a massive reaction. A *New York Times* story on Oct. 22 talked about "anergy," a natural state of suppression of the immune response. Achieving this state with drugs may someday be relevant to treatments for arthritis. ImmuLogic Pharmaceutical, briefly mentioned in the article, saw its stock shoot up almost 20% the same day, to close at 16. Anergen, Inc. wasn't mentioned, but investors didn't take long to make a connection, and bid the stock up to 31½ a day after the *Times* article. Anergen had gone public at 8 only two weeks before.

This kind of investor interest hasn't been lost on the biotechnology industry, which has spent the last several months on a Wall Street fundraising spree to finance a search for arthritis cures *(see table, p. 200)*. It seems to be a long shot whether any of these startups will ever deliver a commercially successful drug. But this arthritis gold rush does at least have the side effect of funding basic research into the workings of the body's immune system, the network of cells and antibodies that repel bacteria, viruses and other invaders.

Although 40 million Americans suffer from some form of arthritis, the sufferers don't make the kind of noise victims of some other diseases do. Hence arthritis research gets relatively little public money. This year the federal government and the Arthritis Foundation will between them fund only $150 million of research into arthritis, a tenth the sum spent on cancer research. The result is that as few as one in eight academic research proposals is being funded, according to William Williams, a scientist at the University of Pennsylvania. If the biotech fever on Wall Street trickles down to the laboratory, then it will have done some good even if the early investors get nothing from it.

Arthritis, or joint inflammation, is not one disease but more than 100 different ones, affecting nearly 40 million Americans. The category includes rheumatoid arthritis, osteoarthritis, gout, lupus and ankylosing spondylitis, or spinal arthritis. What many of these ailments have in common is a breakdown of the immune system: The body's defense mechanisms turn against the body's own cells. This friendly fire can cause joint

With the help of the histocompatibility molecule, a cell grabs a telltale snippet of an antigen and presents its distinguishing features, or epitope, to the helper T cell. The latter musters antibodies and killer cells with an all-points alarm.



pain and inflammation, organ damage and even death.

The prototype of the autoimmune joint diseases is rheumatoid arthritis, which strikes almost 1 in 100 people, mostly women, a lot of them still in their 30s and 40s. Up to 20% of those afflicted will become severely crippled—unable to walk or use their hands—within ten years of being diagnosed. Billions of dollars are already being spent treating the disease, very inadequately, with steroids and other drugs. Almost all these drugs wear out their effectiveness, and almost all have severe side effects. They are palliatives, not cures.

Might a cure be found someday, by getting to the cause? Maybe, but scientists are still a long way from fully understanding the cause. Robert Winchester, 55, a Columbia University scientist, has spent much of the last 30 years trying to figure out what causes rheumatoid arthritis, and he is just beginning to get answers. "We found most of the pieces of the jigsaw," he says. "We've turned them over. Now we're in the process of assembling them."

The diagram on page 198 illustrates three big pieces of the jigsaw puzzle: a foreign body, called an antigen; a group of molecules, called the major histocompatibility complex, which act as go-betweens, presenting antigens to defensive cells; and the defensive cells called helper T cells. (The T stands for thymus, a gland where the T cells mature.) When receptors on helper T cells detect either the antigen or a telltale fragment of it, they set off a series of signals that call out attack weaponry, including killer cells and antibodies. The purpose of the defensive mechanism is to rid the body of the antigen. When the system is working, the antigen is a virus or bacterium, and the end result is the death of the invader. When the system goes haywire, the antigen might be a stray molecule or a fragment of the body's own tissue, and the end result is inflammation, pain and swelling.

Dozens of companies are working on intercepting the inflammatory process at various stages, while others aim to derail the whole event before it begins. The problem here is that scientists don't have a clue to what, if any, foreign body or group of foreign bodies causes the immune system to go berserk in a rheumatoid arthritis patient. "The antigen is a total black box," says Peter Gregersen, a researcher at North Shore University Hospital in Manhasset, N.Y.

Yet another mystery is what kind of genetic flaw might predispose certain people to develop rheumatoid arthritis. Winchester, working with Gregersen and others, has identified a sequence of genes that controls the major histocompatibility complex and that is closely linked to the disease. Before drug companies could make practical use of this discovery, however, they would have to understand a lot more about how this complex works and what other roles it performs. The complex might, for example, help determine the variety of T cells each person has. That selection may determine how a person's immune system reacts or, as in rheumatoid arthritis, overreacts.

Arthritis on Wall Street

Company	Offering date	Amount raised ($mil)
Anergen[1]	Oct 10	$16
Cytel[1]	Oct 31	36 to 42[2]
ImmuLogic Pharmaceutical[1]	May 22	21
Immune Response	Oct 28	50
T Cell Sciences	May 3	14
Xoma	Apr 3	80

[1]Initial public offering.
[2]Estimate; offering not completed.

The quest for drugs to quell autoimmune inflammation has of late been a popular selling pitch in biotech underwritings.

For biotechnology companies, the more immediate payoff seems to rest in trying to disrupt the initiating inflammatory event. One approach is to come up with compounds, either peptides (bits of protein) or other substances, that would bind to the major histocompatibility complex on the spot where the antigen belongs, so that the antigen never gets found and thus is never presented to the T cell. ImmuLogic is developing such a compound, to be taken orally, while Cytel Corp. is working on a way of flooding the system with competing peptides.

The tricky part, says Gregersen, will be coming up with a therapy in which enough of the competing substance can be given to prevent any of the huge number of major histocompatibility complex molecules from being able to present the bits of antigen.

Other companies are studying the T cells, each of which has a number of different receptors, allowing them to recognize a variety of different antigens. Rivals Xoma Corp. and Centocor, Inc. have developed drugs, now in clinical trials, that remove—at least for a time—the T cells that cause the damage in rheumatoid arthritis. (These two firms are better known for their research and their patent battles related to septic shock syndrome.)

Xoma's CD5 Plus is a monoclonal antibody with a a toxic enzyme attached. A monoclonal antibody is a line of identical antibodies primed to grab on to one particular cell—in this case, the mature T cell. The drug wipes out a large part of a person's immune system for several weeks, but leaves unscathed a population of baby T cells that will mature normally; the new crop, it is hoped, won't get involved in self-destructive attacks on the joints. Centocor's Centara is similar but targeted against a subgroup of T cells, covering about two-thirds of those in the blood. The idea here is to stop the arthritis without temporarily annihilating the patient's defense mechanisms.

Better still would be a drug that did in only a small subset of T cells, the true culprits in arthritis, if they could be somehow identified and singled out. Xoma is looking for this kind of drug; so is Immune Response Corp.

None of these approaches is a sure thing, warns Winchester, who says many researchers are making the mistake of looking for cells at the site of inflammation once the disease has already progressed. The cells present then may not be the ones responsible for causing the disease, any more than police officers who congregate at every crime scene are the cause of crime.

Any of the arthritis researchers could stumble onto a cure but, given how little is understood about the disease, it seems that today's investors are being asked to finance not drug development but basic research. ■

THE FORBES/BARRA WALL STREET REVIEW

BY ERIC S. HARDY

"The strong rally in small-cap growth stocks has somewhat overshadowed a similar rally in the small-cap value stocks sector," says Denis Laplaige, portfolio manager of the Mainstay Value Fund. Laplaige's $50 million portfolio is up 35% so far in 1991, compared with the 25% total return in the Barra All-US index. The 50 or so stocks in the Mainstay Value Fund portfolio have an average price/earnings ratio of only 13, well below the Barra index stocks' average P/E of 25. Laplaige says his low-multiple portfolio is probably less vulnerable to a market decline than the average growth fund.

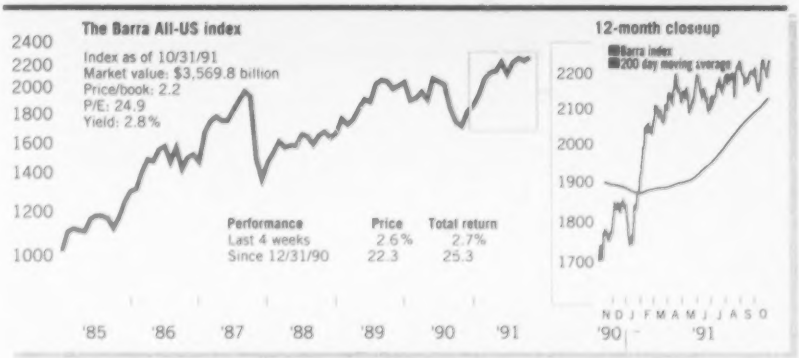
One of Laplaige's favorites is Offshore Logistics, which provides helicopter transportation to oilfield workers in the Gulf of Mexico. The stock does not pay a dividend but has a P/E of only 7. Laplaige also likes Crown Crafts, which makes bedding supplies and pays a small dividend.

Correction

Column heads for the best and worst performers shown on last issue's Mutual Fund Review page were transposed. The correct data for the 12 months ended September are shown below.

Fund	Total return	Fund	Total return
AIM Charter	36.2 %	ASA Limited	-24.3 %
AIM Weingarten	42.2	Alliance Bond-Hi Yield	27.3
Benham Target 2005	31.7	Bull & Bear Gold	-13.0
Berger 100	81.7	Dean Witter Hi Yield	15.8
Bergstrom Cap	67.4	Fidelity Sel-Precious	-11.4
CGM Cap Devel	98.5	First Inv Hi Yield	17.0
Fidelity Contrafund	57.5	Keystone B-4	18.3
Fidelity Growth	59.1	Keystone Precious	-7.5
Fidelity Sel-Health	79.9	Lexington Gold	-16.5
Fidelity Sel-Util	23.0	Pilgrim S-T Multi Inc	6.9
Fml Ind Income	44.5	Strategic Invest	-29.2
Smith Barney-US Govt	16.7	US-Global Res	-2.6
Transamerica Inc Shrs	19.9	US-Gold Shares	-18.2
USAA Mutual-Inc	19.5	Van Eck Intl	-10.2
Vanguard Fixed GNMA	16.7	Vanguard Gold & Proc	-4.3

The overall market



Closeup on the market

Index or investment	2-week change	% change from 1 year	% change from 5-year high
Barra All-US index	0.5%	32.0%	0.0%
Sharpe/Barra Growth index[1]	-0.1	29.1	-0.7
Sharpe/Barra Value index[2]	0.5	35.1	-0.2
Dow Jones industrials	0.5	25.0	-0.3
S&P 500	0.1	27.8	-1.1
NYSE	0.3	29.2	-0.3
Nasdaq	1.3	64.2	0.0
Amex	1.6	34.1	-2.5
EAFE[3]	0.7	3.7	-17.5
CRB index[4,5]	-0.1	-5.6	-19.8
Gold[5]	-0.5	-3.6	-28.8
Yen[5]	1.2	5.2	-20.2
Oil[5]	-2.5	-36.5	-43.3

The best and worst performing stocks[6]

Best	Price	2-week change	1991 EPS[7]	Worst	Price	2-week change	1991 EPS[7]
Glycomed	18 1/4	87%	NA	Owens-Corning	22	-33%	$1.31
Medimmune	52 1/2	69	$0.07	CareNetwork	11 1/2	-32	1.12
Informix	15 1/4	61	0.14	Intl Rectifier	13 1/4	-26	1.60*
ICN Pharmaceuticals	11 1/4	58	0.55	Harley-Davidson	44	-26	2.47
Immune Response	59 1/4	39	-0.30	Regis	7 1/8	-24	NA

The best and worst performing industry factors[4,8]

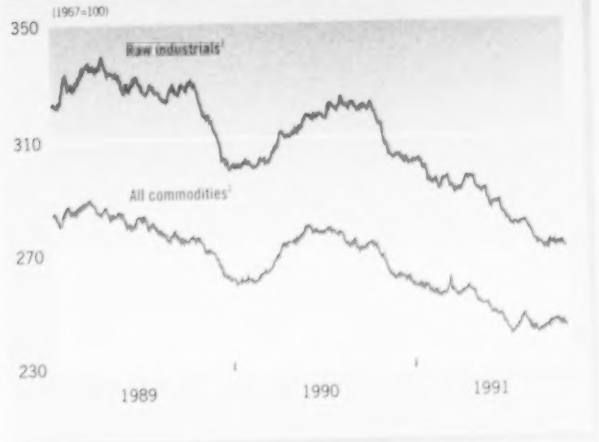
Best	2-week change	Since 12/31/90	Worst	2-week change	Since 12/31/90
Coal & uranium	10.1%	10.0%	Motor vehicles	-7.2%	11.6%
Oil refining, distribution	5.5	29.5	Construction	-6.0	6.8
Insurance, non-life	5.2	15.9	Consumer durables	-5.6	14.2
Drugs, medicine	4.9	49.1	Forest products	-5.0	26.3
Tire & rubber	4.9	57.7	Water transport	-4.9	27.5

Note: Data for period ending 10/31/91. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. [1] Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings growth. [2] Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. [3] A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. [4] Index of 21 commodity futures. [5] Knight-Ridder Financial Information. [6] During the last two weeks. [7] Estimate. Source: Institutional Brokers Estimate System, from IBES, Inc. [8] Shows return to the industry factor after controlling for other influences including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. NA: Not available. *1992 estimate. Principal source: Barra, Inc., Berkeley, Calif.

COMMODITIES REVIEW

BY ERIC S. HARDY

CRB Spot indexes



CRB Futures indexes

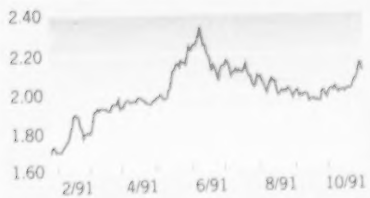
Like the U.S. economy, the Commodity Research Bureau Futures index has gone nowhere in the past 12 months, a dispiriting sign. James Nevler, an analyst at the Commodity Research Bureau in New York, sees no strength developing in commodity prices, and is thus skeptical about the chances for a strong economic recovery. "If prices for raw materials are leading economic indicators, as they should be, I see no reason to be optimistic about the overall economy for at least the next few months," says Nevler. "There is no significant [demand] out there."

If demand does improve, supply for most commodities does not appear to be much of a problem. The petroleum market is a good illustration. OPEC has raised its official output quota by 6%, to 24 million barrels a day. This increase should offset expected increased demand, and reduced output in the Soviet Union.

There are a few pockets of strength in the commodity markets. The grain price index, for example, has been increasing in response to a rise in wheat prices. The Soviet Union has already tapped $585 million in U.S. grain credits in fiscal 1992 and is requesting an additional $2.5 billion in credits and $1 billion in outright grants. Also helping to support wheat prices is unusually dry weather in the Midwest; the U.S. Department of Agriculture reports the summer wheat crop yield was relatively small. And on Oct. 10 the USDA also released a report predicting tight supplies of Florida oranges. That could help firm up prices in this market.

Commodity spotlight

January Lumber[5] ($ per board foot)



Lumber prices hit an alltime high after logging restrictions in the Pacific Northwest—designed to save spotted owls—were announced in May. The threat of environmentally related action still overhangs the market, while forest fires in the Northwest may also prop up U.S. prices. But don't expect much upward pressure on prices from the depressed housing market.

Cash and futures prices

Spot indexes

Index[4]	Value	3-mo change
All commodities	242.90	1%
Raw industrials	270.81	-3
Metals	245.16	1
Textiles	230.49	-10
Foodstuffs	207.43	7

Futures indexes

Index[4]	Value	3-mo change
CRB index	217.86	6%
Precious metals	238.01	-6
Industrials	231.63	-2
Grains	194.69	17
Livestock & meat	191.05	-3

Spot commodity prices

Index	Price	3-mo change
Steel scrap (short ton)	$97.00	9%
Copper scrap (pound)	0.85	4
Print cloth (sq yard)	0.88	4
Corn (bushel)	2.42	10
Soybean oil (pound)	0.19	4

Futures prices

Index	Price	3-mo change
Jan platinum (troy oz)	$367.40	-6%
Dec crude oil (barrel)	23.12	11
Dec copper (pound)	1.05	6
Dec cotton (pound)	0.63	-9
Dec Chi wheat (bushel)	3.65	32

Note: All prices as of 10/25/91. [1]Composed of 13 commodities. [2]Composed of the 13 raw industrial commodities plus 10 foodstuffs. [3] Gold, platinum and silver. [4]Composed of 21 commodities. [5]Prices from 1/23/91 through 10/25/91. [6]Base for spot and futures indexes (1967=100). Source: Knight-Ridder Commodity Research Bureau.